

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
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DAN E. ARNETT
CHIEF OF STAFF

176993

December 7, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

SC PUBLIC SERVICE
COMMISSION

2005 DEC - 7 PM 4: 36

RECEIVED

Re: Application of Utilities Services of South Carolina, Incorporated for
Adjustment of Rates and Charges and Modifications to Certain Terms and
Conditions for the Provision of Water and Sewer Service
Docket No. 2005-217-WS

Dear Mr. Terreni:

Enclosed for filing please find the original and sixteen (16) copies of the Settlement Agreement in the above referenced matter. The parties respectfully request that the Settlement Agreement be placed into the record in this docket. Please date stamp the extra copy enclosed and return it to me in the envelope provided.

Thank you very much for your assistance. Please let me know if you have any questions.

Sincerely,

Wendy B. Cartledge
Wendy B. Cartledge

WBC/pjm
Enclosures

cc: John M.S. Hoefer, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-217-WS


RECEIVED
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SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of Utilities Services of)
SC, Inc. for Adjustment of Rates and)
Charges and Modifications to Certain)
Terms and Conditions for the) **CERTIFICATE OF SERVICE**
Provision of Water and Sewer Service)
_____))

This is to certify that I, Pamela McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

John M.S. Hoefer, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
1022 Calhoun Street, Suite 302
Columbia, South Carolina 29201


Pamela McMullan

December 7, 2005
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

December 7, 2005

RECEIVED
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SC PUBLIC SERVICE
COMMISSION

Application of Utilities Services of)	
South Carolina, Inc. for adjustment of)	SETTLEMENT AGREEMENT
rates and charges and modifications to)	
certain terms and conditions for the)	
provision of water and sewer service.)	
_____)	

This Settlement Agreement is made by and between the Office of Regulatory Staff (“ORS”) and Utilities Services of South Carolina, Inc. (“USSC” or “the Company”) (together referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water and sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission (“Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2004), and the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, since the filing of the Application, ORS has propounded numerous data requests to USSC and the Company has prepared in response thereto hundreds of pages of information related to the matters at issue in this docket and has provided those responses to ORS;

 WBC

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests; and

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraph 2 hereinbelow, and (3) this Settlement Agreement with Exhibits "A"- "E" attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed testimony of Sharon G. Scott, Dawn M. Hipp and Bruce T. Haas (direct and rebuttal), including all exhibits attached to the pre-filed testimony, without objection, change, amendment, or cross-examination. Further, the parties agree to include in the hearing record of this case

without objection, change, amendment, or cross examination the testimony of witnesses Steven M. Lubertozzi, Converse A. Chellis, III and Dawn M. Hipp attached hereto and incorporated herein by this reference as Exhibits "A", "B" and "C".

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached hereto as Exhibit "D" fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity at a rate of 9.75%, revenue requirement, and rate of return on rate base.


4. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit "E", including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair return on its investment..

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public

 WSC

while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, USSC has requested an increase in annual revenues of \$821,030. As a compromise to positions advanced by ORS and USSC, the Parties stipulate and agree to an increase in annual revenues of \$617,064, said increase to be based upon the adjustments reflected in the testimony of Sharon G. Scott and the return on equity stipulated to by the Parties in Paragraph 7 below.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.75% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates shown on Exhibit "D" hereto are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) a return on common equity of 9.75 %, which yields a fair rate of return for the Company of 8.37%, and an annual increase in revenues of approximately \$617,064, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) USSC's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water sewer and sewer service, and (iv) USSC's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and

reasonable and should be adopted by the Commission for bills rendered by the Company on and after January 19, 2006.

9. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "E", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission. The Parties agree that Commission approval of the rate schedule provision concerning the pass-through to customers of purchased water and bulk sewer treatment service charges is effective only with respect to current purchased water and bulk sewer treatment charges imposed upon the Company and that any future increases in the amounts of such charges to be passed-through to affected customers may only be placed into effect by the Company upon compliance with the procedure established by the Commission in its Order No. 2002-285, Docket No. 2001-164-W/S.

10. USSC agrees and stipulates that it will file with the Commission a performance bond for water service in the amount of \$350,000.00 and a performance bond for sewer service in the amount of \$150,000.00.

11. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13. This Settlement Agreement shall be interpreted according to South Carolina law.

14. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

 WBC

WE AGREE:

Representing the Office of Regulatory Staff

Wendy B. Cartledge

Wendy B. Cartledge, Esquire

Office of Regulatory Staff

Post Office Box 11263

1441 Main Street (Suite 300)

Columbia, SC 29211

Phone: (803) 737-0853

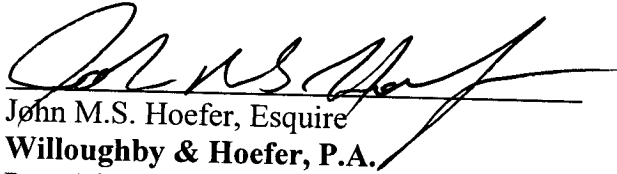
Fax: (803) 737-0800

E-mail: wcartle@regstaff.sc.gov

WBC

WE AGREE:

Representing Utilities Services of South Carolina, Inc.



John M.S. Hoefler, Esquire

Willoughby & Hoefler, P.A.

Post Office Box 8416

1022 Calhoun Street, Suite 302

Columbia, SC 29202-8416

Phone: (803) 252-3300

Fax: (803) 256-8062

E-mail: jhoefler@willoughbyhoefler.com

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:)
)
Application of Utilities Services of)
South Carolina, Inc. for adjustment of)
rates and charges and modifications to)
certain terms and conditions for the)
provision of water and sewer service.)
_____)

**SETTLEMENT TESTIMONY
OF STEVEN M. LUBERTOZZI**

1 **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND**
2 **PROFESSIONAL BACKGROUND?**

3 A. I graduated from Indiana University in 1990, and I am a Certified Public
4 Accountant. I have been employed by Utilities, Inc., or "UI," since June of 2001.
5 Prior to joining Utilities, Inc., I had four years of public accounting/financial
6 analysis experience. In my work with Utilities, Inc. I have been involved in many
7 phases of rate-making in several regulatory jurisdictions. I have previously
8 testified before the South Carolina Public Service Commission and I have testified
9 before the Illinois Commerce Commission, the Indiana Utility Regulatory
10 Commission, the Florida Public Service Commission, the New Jersey Board of
11 Public Utilities, the North Carolina Utilities Commission, and the New Mexico
12 Public Regulation Commission. I am a member of the American Institute of
13 Certified Public Accountants. I have successfully completed the utility regulation

1 seminar sponsored by NARUC and other regulatory seminars sponsored by
2 PricewaterhouseCoopers and the American Water Works Association.

3 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES,**
4 **INC.**

5 A. My responsibilities encompass all aspects of state utility commission
6 regulation in sixteen of the seventeen states where UI subsidiaries operate
7 (Georgia does not regulate water and sewer utilities). These duties include
8 preparation of rate case applications, coordinating Commission audits, developing
9 and delivering testimony before state utility regulatory bodies and obtaining
10 approvals for territory expansions.

11 **Q. PLEASE DESCRIBE UTILITIES SERVICE OF SOUTH CAROLINA,**
12 **INC.?**

13 A. Utilities Services of South Carolina, Inc., or "USSC," is a wholly owned
14 subsidiary of UI. USSC was formed in 2002 for the purpose of acquiring the
15 assets of two South Carolina public utilities, Utilities of South Carolina, Inc., or
16 "USCI," and South Carolina Water and Sewer, LLC, or "SCWS." As the
17 Commission is aware, it approved these acquisitions on July 30, 2002 in its Order
18 Number 2002-533 in Docket Number 2002-124-W/S. USSC maintains an
19 operations and customer service office in West Columbia, South Carolina.
20 Customer payments, meter readings and service orders are processed from this
21 office. As is the case with the other UI operating subsidiaries in South Carolina
22 regulated by the Commission, administrative functions such as regulatory services,

1 management, accounting, human resources, and data processing are provided by
2 UI from its office in Northbrook, Illinois.

3 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

4 A. The purpose of my testimony is to provide support for the Settlement
5 Agreement entered into by the parties in the proceeding on December ___, 2005.
6 Specifically, I will be testifying as to the reasons why the 9.75% Return on Equity
7 ("ROE") agreed to by the parties is a reasonable ROE for the Company in the
8 context of a comprehensive settlement of this specific case.

9 **Q. IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.75%**
10 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN**
11 **THE CONTEXT OF A COMPREHENSIVE SETTLEMENT**
12 **AGREEMENT?**

13 A. Yes. In the context of the present settlement agreement, which disposes of
14 all issues in the case, rates set based upon a 9.75% ROE can provide investors the
15 opportunity to earn a reasonable return on our capital investment. The 9.75%
16 ROE is a return that would be acceptable to investors based on a comprehensive
17 settlement of all issues in this specific case. Based on my knowledge of capital
18 markets, my understanding of its expectations related to regulated returns in the
19 present economic context, and my monitoring of the returns granted to other
20 utilities in states where Utilities, Inc. subsidiaries operate and the reaction of the
21 capital market to those returns, I believe that 9.75% is a sufficient return which the
22 capital market would expect in the context of a comprehensive settlement.

1 **Q. WOULD YOU PLEASE EXPLAIN THE BASIS FOR YOUR OPINION?**

2 A. Yes. As a Director of Regulatory Affairs for the Company and other
3 subsidiaries of Utilities, Inc. providing water and sewer utility services to nearly
4 300,000 customers in seventeen different states, I have the opportunity to
5 participate in rate proceedings in a wide variety of regulatory environments.
6 Accordingly, I am able to understand how the regulatory environment in a given
7 state affects the level of investment in utilities.

8 **Q. WHY IS A SETTLEMENT IMPORANT TO CAPITAL MARKETS?**

9 A. Investors place great importance on rate case settlements. Whether rate
10 cases are settled or litigated figures prominently in analysts' reports and
11 evaluations of these cases and is a factor that strongly influences the capital
12 market's assessment of the regulatory climate a utility operates in. The capital
13 market sees settlements as an indication of a cooperative relationship between a
14 utility and its regulators and the other participants in the regulatory process.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:)
)
Application of Utilities Services of)
South Carolina, Inc. for adjustment of)
rates and charges for the provision of water)
service.)
_____)

SETTLEMENT TESTIMONY
OF CONVERSE A. CHELLIS, III

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA")
3 and a principal in and the Director of Litigation Services and Property Tax Services for
4 Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah
5 Island, and Summerville, South Carolina. My office is located at 133 East First North Street,
6 Suite 9, Summerville, South Carolina 29483.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a
9 bachelor's degree in business administration. I also have completed graduate level courses in
10 accounting at the University of Georgia. In addition, I have had a minimum of forty (40)
11 hours of continuing professional education ("CPE") each year since 1969, for a total of at
12 least 1,440 total CPE hours.

13 **Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL**
14 **EXPERIENCE PRIOR TO YOUR CURRENT POSITION.**

1 A. Upon graduation from The Citadel in 1966, I served in the United States Air Force
2 and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now
3 Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and
4 have been a name partner and managing partner in several accounting firms until 1998. In
5 1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director
6 of Litigation Services.

7 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8 A. Yes. I am a member of the American Institute of Certified Public Accountants
9 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
10 committee, and in 1985 I served on the AICPA council.

11 I am also a member of the South Carolina Association of Certified Public
12 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in
13 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
14 SCACPA, having previously served on the state level as Vice-President, Secretary/Treasurer,
15 and Director. I have also been Chairman of the SCACPA's Committee on Continuing
16 Professional Education, Chairman and trustee for the SCACPA's educational fund, and
17 Chairman of the SCACPA's Committee on Cooperation with Governmental Agencies.

18 From 1986-1994, I was a member of the State Board of Accountancy, where I served
19 as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

20 From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also a
21 past member of the American Society of Appraisers, and a current member of the American
22 College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance

1 Officers Association, and I have held various offices in the National Association of
2 Accountants. I am also active in the peer review process, which involves examination of the
3 work of other accountants and accounting firms to assure that quality controls are being
4 applied in conformance with the Quality Control Standards adopted by the AICPA.

5 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**
6 **OR AUDITORS?**

7 A. Yes. I have been a speaker and an instructor for the accounting profession on a
8 number of accounting topics, including topics related to generally accepted accounting
9 principles ("GAAP").

10 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
11 **CAROLINA COURT?**

12 A. Yes. I have been qualified as an expert witness in both the circuit and family courts
13 of South Carolina.

14 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

15 A. The purpose of my settlement testimony is to provide support for the recovery of the
16 investment of Utilities Services of South Carolina, Inc., which I will hereinafter refer to as
17 "USSC" or the "Company", in certain plant through the amortization of its cost as part of the
18 overall resolution of this case proposed by the parties and to support the adoption of the
19 Settlement Agreement as a whole.

20 **Q. IS THE AMORTIZATION OF PLANT INVESTMENT CONTEMPLATED BY THE**
21 **SETTLEMENT AGREEMENT APPROPRIATE?**

1 A. I believe the amortization is appropriate primarily because of the unique
2 circumstances of the case. As the Commission is aware, the Company's acquisition of the
3 assets of South Carolina Water & Sewer, LLC and Utilities of South Carolina, Inc. was found
4 by the Commission to be in the public interest in its order approving the transfer. In part, this
5 finding was based upon the fact that these two companies were operating in a state of
6 financial and regulatory distress. As Mr. Haas has noted in his testimony in this case, more
7 than half of the water systems were out of compliance with environmental standards at the
8 time of the transfer. The transfer approved in the Commission's order was also the result of
9 arms-length bargaining between unaffiliated entities. Following the transfer, customers were
10 beneficiaries of substantial upgrades in facilities and improvements in service. As the
11 testimony of Office of Regulatory Staff, or ORS, witness Dawn Hipp recognizes, the
12 Company has brought financial and operational stability to these distressed systems. The
13 authorized transfer did not involve the acquisition of simply one or two distressed systems
14 serving a small customer base. Rather, the authorized transfer involved the acquisition of
15 more than eighty water and four sewer systems serving approximately seven thousand
16 customers.

17 Given these unique facts, it is my opinion that the Company should be allowed to
18 recover the investment it actually made to acquire these assets – an investment that was
19 necessary for the Company to purchase the systems and thereafter make substantial
20 improvements to plant and facilities for the benefit of customers. Permitting USSC to
21 amortize the amount of its investment in plant and facilities that exceeded undepreciated
22 original cost or book value is appropriate where a regulatory body seeks to divide fairly the

1 costs associated with plant investment between a utility's investors and its customers. This
2 treatment has been accepted in 1 Robert L. Hahne, et al., *Accounting for Public Utilities*, §
3 4.04[2] at 4-12 (2005) and also in II Leonard L. Goodman *The Process of Ratemaking*, at
4 788 (1998). In the context of the comprehensive settlement proposed by the parties and
5 given the unusual circumstances of the case, acceptance of the amortization as a compromise
6 is appropriate.

7 **Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**
8 **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

9 A. Yes, it is.

10 **Q. WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

11 A. I have several reasons for believing that the Settlement Agreement is a reasonable
12 means by which to resolve the disputed issues in this case. First, one of the statutory duties
13 of the Office of Regulatory Staff is to facilitate the resolution of disputed issues involving
14 matters within the jurisdiction of the Commission. I think it incumbent upon the other
15 parties in cases before the Commission, which in this proceeding is USSC, to work with
16 ORS in good faith in an attempt to reach a settlement. I believe that the Settlement
17 Agreement reflects a good faith effort on the part of ORS and the Company to meet their
18 respective obligations in that regard.

19 Second, and as Mr. Lubertozzi mentions in his testimony in support of the Settlement
20 Agreement, capital markets recognize the value of settlements in ratemaking cases.
21 Additional investment resulting from favorable capital markets would be an enhancement to
22 economic development in South Carolina.

1 Third, a settlement brings the matter to an end without delay and the uncertainty of
2 further proceedings; this in turn permits ORS to focus its talents and resources on other
3 matters within its area of responsibility and permits the Company to focus upon the
4 continued improvement and expansion of its facilities and services for the benefit of its
5 customers.

6 Finally, the amortization of plant investment contemplated by the Settlement
7 Agreement is in the public interest because it recognizes the value customers receive from
8 investment in distressed utility systems and provides encouragement for investment in
9 distressed systems with reasonable assurance that the acquisition adjustment is recoverable
10 over time. The Commission has control over the process as it must approve any transfer of
11 assets prior to an acquisition occurring. Any public interest issues or fairness issues related
12 to the purchase of plant assets may be addressed by the Commission during the approval
13 process. This procedure provides protection against inflated or over priced affiliated
14 transactions.

15 In summary, I have the unique perspective in this case of having compiled the value
16 of the assets at transfer and having been informed of the improvements made to the system
17 by USSC. The customers are much better off than before with USSC owning and operating
18 these systems. The comprehensive settlement proposed by the parties in my opinion fairly
19 balances the interest of the customers and the Company. I therefore respectfully request that
20 the Commission approve the Settlement Agreement.

21 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

22 **A.** Yes it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:

Application of Utilities Services of
South Carolina, Inc. for adjustment of
rates and charges and modifications to
certain terms and conditions for the
provision of water and sewer service.

**SETTLEMENT TESTIMONY
OF DAWN M. HIPPI**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300,
3 Columbia, South Carolina 29201. I am employed by the State of South Carolina
4 as a Program Specialist in the Water/Wastewater Department for the Office of
5 Regulatory Staff ("ORS").

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to provide a brief overview of the Settlement
9 Agreement reached between ORS and Utilities Services of South Carolina, Inc.
10 ("USSC") in this proceeding and to explain why this Settlement Agreement is in
11 the public interest.

12 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT**
13 **AGREEMENT REACHED BY ALL PARTIES OF RECORD.**

1 A. Following extensive discussions, the parties have each determined that their
2 interests, as well as the interest of the public would be best served by settling all
3 pending issues in this proceeding.

4 It is the position of ORS and the other parties of record in this docket that the
5 Settlement Agreement, as presented to this Commission, is a fair, reasonable and
6 full resolution to all issues in this proceeding. Further, the Settlement Agreement
7 represents the public interest as it preserves the balance referred to in S.C. Code §
8 58-4-10:

9 ... 'public interest' means a balancing of the following:
10

- 11 (1) Concerns of the using and consuming public with
12 respect to public utility services, regardless of the
13 class of customer;
14
- 15 (2) Economic development and job attraction and
16 retention in South Carolina; and
17
- 18 (3) Preservation of the financial integrity of the State's public utilities
19 and continued investment in and maintenance of utility facilities so
20 as to provide reliable and high quality utility services.
21

22 All parties agree that an increase in rates and charges is necessary for USSC to
23 provide its residential and commercial customers with safe and adequate water
24 and wastewater services. USSC has provided financial and operational stability to
25 the distressed water and sewer systems previously operated by Utilities of South
26 Carolina, Inc. and South Carolina Water & Sewer, LLC. While these customers
27 have benefited from the various upgrades and improvements made by USSC,
28 ORS had determined that USSC is currently operating under rates that do not
29 allow it to earn a fair return on its investment. The Settlement Agreement

1 provides a schedule of proposed rates, terms and conditions that are fair and
2 reasonable to both the customer and USSC and will allow USSC the opportunity
3 to earn a fair return on its investment. Specifically, USSC has agreed to reduce its
4 rates, from those proposed in the original Application, in the areas of residential
5 water base facility charges and water usage charges.

6 Further, all parties agree that, if approved by the Public Service Commission
7 ("Commission"), the rate design of the stipulated pass-through provision balances
8 the public interest by allowing for full purchased water and sewer cost recovery
9 and published customer notice.

10 As part of this Settlement Agreement, USSC has agreed to file with the Public
11 Service Commission a performance bond for water operations in the amount of
12 \$350,000.00 and a performance bond for sewer operations in the amount of
13 \$150,000.00.

14 As stated earlier, it is the position of ORS and USSC that this Settlement
15 Agreement is a fair, reasonable and full resolution to all issues in this proceeding
16 and I would request the Commission approve the Settlement Agreement as
17 presented today.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. This concludes my overview of the Settlement Agreement presented on behalf of
20 ORS and USSC.

21

**Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Combined Operations**

Audit Exhibit SGS-1

<u>Description</u>	(1) <u>Per Company Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>As Adjusted</u> \$	(4) <u>Effect of Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Operating Revenues</u>					
Service Revenue - Water	2,142,888	(1,344) (A)	2,141,544	750,809 (M)	2,892,353
Service Revenue - Sewer	109,659	(2,550) (A)	107,109	70,221 (M)	177,330
Miscellaneous Revenues	80,466	0	80,466	0	80,466
Uncollectible Accounts	(30,238)	0	(30,238)	(11,002) (N)	(41,240)
<u>Total Operating Revenues</u>	<u>2,302,775</u>	<u>(3,894)</u>	<u>2,298,881</u>	<u>810,028</u>	<u>3,108,909</u>
<u>Operating Expenses</u>					
Operating & Maintenance Expenses	1,056,437	(214,713) (B)	841,724	0	841,724
General & Administrative Expenses	479,641	112,003 (C)	591,644	0	591,644
Depreciation & Amortization Expenses	208,711	99,505 (D)	308,216	0	308,216
Taxes Other Than Income	345,885	(21,661) (E)	324,224	9,217 (O)	333,441
Income Taxes	(21,019)	21,019 (F)	0	268,366 (P)	268,366
Interest on Customer Deposits	0	3,672 (G)	3,672	0	3,672
<u>Total Operating Expenses</u>	<u>2,069,655</u>	<u>(175)</u>	<u>2,069,480</u>	<u>277,583</u>	<u>2,347,063</u>
<u>Total Operating Income</u>	<u>233,120</u>	<u>(3,719)</u>	<u>229,401</u>	<u>532,445</u>	<u>761,846</u>
Customer Growth - Audit Exhibit SGS - 7	0	1,371	1,371	2,514	3,885
<u>Net Income for Return</u>	<u>233,120</u>	<u>(2,348)</u>	<u>230,772</u>	<u>534,959</u>	<u>765,731</u>
<u>Original Cost Rate Base</u>					
Gross Plant in Service	8,367,148	715,798 (H)	9,082,946	0	9,082,946
Accumulated Depreciation	(719,490)	(299,368) (I)	(1,018,858)	0	(1,018,858)
Net Plant in Service	7,647,658	416,430	8,064,088	0	8,064,088
Cash Working Capital	192,010	(12,839) (J)	179,171	0	179,171
Water Service Corporation - Rate Base	55,561	0	55,561	0	55,561
Plant Acquisition Adjustment	1,246,257	(1,246,257) (K)	0	0	0
Contributions in Aid of Construction	(28,686)	0	(28,686)	0	(28,686)
Accumulated Deferred Income Taxes	(521,562)	0	(521,562)	0	(521,562)
Customer Deposits	(104,907)	(9,429) (L)	(114,336)	0	(114,336)
<u>Total Rate Base</u>	<u>8,486,331</u>	<u>(852,095)</u>	<u>7,634,236</u>	<u>0</u>	<u>7,634,236</u>
<u>Return on Rate Base</u>	<u>2.75%</u>		<u>3.02%</u>		<u>10.03%</u>

Audit Exhibit SGS-2

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Water Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues					
Service Revenue - Water	2,142,888	(1,344) (A)	2,141,544	750,809 (M)	2,892,353
Miscellaneous Revenues	77,618	0	77,618	0	77,618
Uncollectible Accounts	(28,802)	0	(28,802)	(10,061) (N)	(38,863)
Total Operating Revenues	<u>2,191,704</u>	<u>(1,344)</u>	<u>2,190,360</u>	<u>740,748</u>	<u>2,931,108</u>
Operating Expenses					
Operating & Maintenance Expenses	984,221	(216,997) (B)	767,224	0	767,224
General & Administrative Expenses	454,365	105,515 (C)	559,880	0	559,880
Depreciation & Amortization Expenses	202,280	91,630 (D)	293,910	0	293,910
Taxes Other Than Income	327,754	(20,473) (E)	307,281	8,428 (O)	315,709
Income Taxes	(20,021)	20,021 (F)	0	257,878 (P)	257,878
Interest on Customer Deposits	0	3,478 (G)	3,478	0	3,478
Total Operating Expenses	<u>1,948,599</u>	<u>(16,826)</u>	<u>1,931,773</u>	<u>266,306</u>	<u>2,198,079</u>
Total Operating Income	<u>243,105</u>	<u>15,482</u>	<u>258,587</u>	<u>474,442</u>	<u>733,029</u>
Customer Growth - Audit Exhibit SGS - 7	0	1,371	1,371	2,514	3,885
Net Income for Return	<u>243,105</u>	<u>16,853</u>	<u>259,958</u>	<u>476,956</u>	<u>736,914</u>
Original Cost Rate Base					
Gross Plant in Service	8,144,078	624,975 (H)	8,769,053	0	8,769,053
Accumulated Depreciation	(713,900)	(283,591) (I)	(997,491)	0	(997,491)
Net Plant in Service	<u>7,430,178</u>	<u>341,384</u>	<u>7,771,562</u>	<u>0</u>	<u>7,771,562</u>
Cash Working Capital	179,823	(13,935) (J)	165,888	0	165,888
Water Service Corporation - Rate Base	52,635	0	52,635	0	52,635
Plant Acquisition Adjustment	1,180,579	(1,180,579) (K)	0	0	0
Contributions in Aid of Construction	(28,686)	0	(28,686)	0	(28,686)
Accumulated Deferred Income Taxes	(493,677)	0	(493,677)	0	(493,677)
Customer Deposits	(99,378)	(8,932) (L)	(108,310)	0	(108,310)
Total Rate Base	<u>8,221,474</u>	<u>(862,062)</u>	<u>7,359,412</u>	<u>0</u>	<u>7,359,412</u>
Return on Rate Base	<u>2.96%</u>		<u>3.53%</u>		<u>10.01%</u>

Audit Exhibit SGS-3

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Sewer Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues					
Service Revenue - Sewer	109,659	(2,550) (A)	107,109	70,221 (M)	177,330
Miscellaneous Revenues	2,848	0	2,848	0	2,848
Uncollectible Accounts	(1,436)	0	(1,436)	(941) (N)	(2,377)
Total Operating Revenues	<u>111,071</u>	<u>(2,550)</u>	<u>108,521</u>	<u>69,280</u>	<u>177,801</u>
Operating Expenses:					
Operating & Maintenance Expenses	72,216	2,284 (B)	74,500	0	74,500
General & Administrative Expenses	25,276	6,488 (C)	31,764	0	31,764
Depreciation & Amortization Expenses	6,431	7,875 (D)	14,306	0	14,306
Taxes Other Than Income	18,131	(1,188) (E)	16,943	789 (O)	17,732
Income Taxes	(998)	998 (F)	0	10,488 (P)	10,488
Interest on Customer Deposits	0	194 (G)	194	0	194
Total Operating Expenses	<u>121,056</u>	<u>16,651</u>	<u>137,707</u>	<u>11,277</u>	<u>148,984</u>
Total Operating Income	<u>(9,985)</u>	<u>(19,201)</u>	<u>(29,186)</u>	<u>58,003</u>	<u>28,817</u>
Customer Growth - Audit Exhibit SGS - 7	0	0	0	0	0
Net Income for Return	<u>(9,985)</u>	<u>(19,201)</u>	<u>(29,186)</u>	<u>58,003</u>	<u>28,817</u>
Original Cost Rate Base					
Gross Plant in Service	223,070	90,823 (H)	313,893	0	313,893
Accumulated Depreciation	(5,590)	(15,777) (I)	(21,367)	0	(21,367)
Net Plant in Service	217,480	75,046	292,526	0	292,526
Cash Working Capital	12,187	1,096 (J)	13,283	0	13,283
Water Service Corporation - Rate Base	2,926	0	2,926	0	2,926
Plant Acquisition Adjustment	65,678	(65,678) (K)	0	0	0
Contributions in Aid of Construction	0	0	0	0	0
Accumulated Deferred Income Taxes	(27,885)	0	(27,885)	0	(27,885)
Customer Deposits	(5,529)	(497) (L)	(6,026)	0	(6,026)
Total Rate Base	<u>264,857</u>	<u>9,967</u>	<u>274,824</u>	<u>0</u>	<u>274,824</u>
Return on Rate Base	<u>-3.77%</u>		<u>-10.62%</u>		<u>10.49%</u>